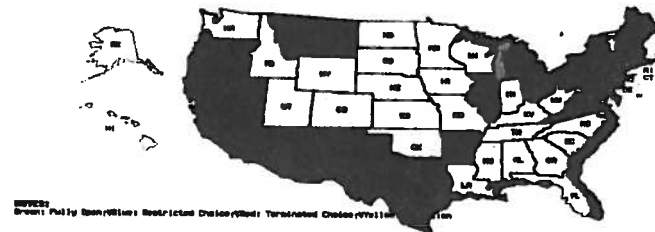


## THE BURDEN OF ELECTRICITY MONOPOLY IN MICHIGAN

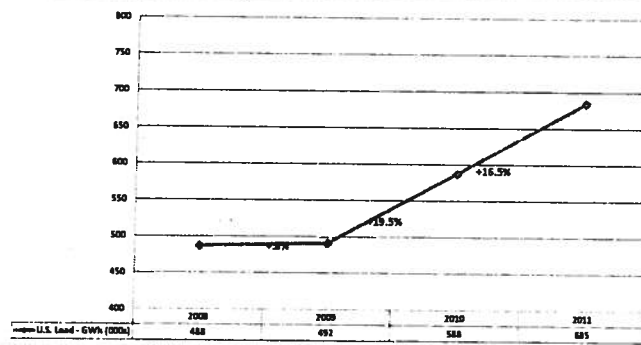
Michigan House of Representatives  
Energy & Technology Committee  
Philip R. O'Connor, Ph.D.  
April 9, 2013

## SOME DEGREE OF CHOICE IN STATES WITH >40% OF U.S. LOAD

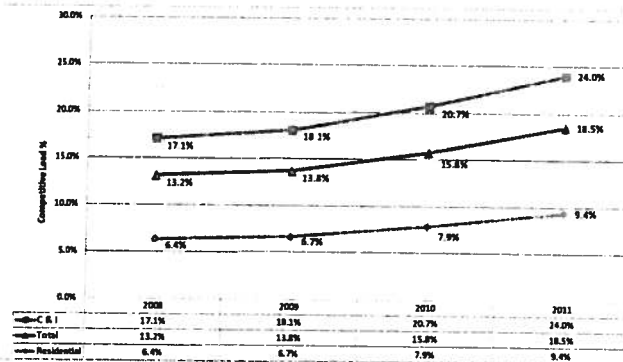
Electricity Customer Choice



## 40% Growth in Retail Competitive Electricity Load (18 Jurisdictions) 2008-2011 (% year over year)



## Competitive Load Is 20% of Total Continental U.S. Load (2008-2011)



## MICHIGAN MADE PROGRESS AGAINST U.S. WHEN CHOICE POLICY WAS IN PLACE

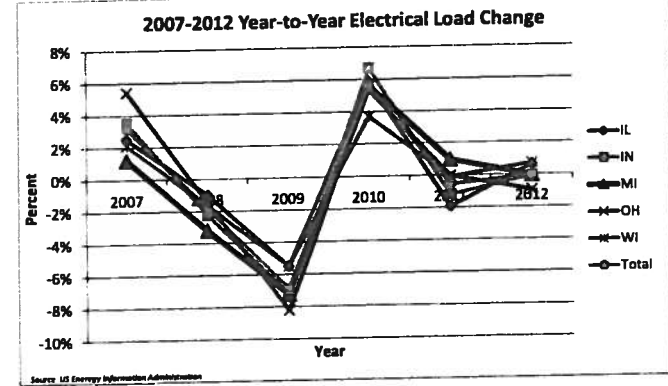
All-Sectors Rate Ratios  
Upper Midwest States v. US Average

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	1990-2000 Average
Illinois	1.14	1.13	1.13	1.12	1.07	1.12	1.12	1.12	1.11	1.05	1.02	1.10
Indiana	0.82	0.79	0.78	0.75	0.76	0.76	0.76	0.77	0.79	0.80	0.76	0.78
Michigan	1.08	1.07	1.06	1.03	1.03	1.02	1.04	1.03	1.05	1.07	1.04	1.05
Ohio	0.90	0.91	0.89	0.90	0.90	0.91	0.92	0.91	0.95	0.96	0.94	0.92
Wisconsin	0.82	0.81	0.80	0.80	0.79	0.78	0.77	0.76	0.81	0.83	0.84	0.80

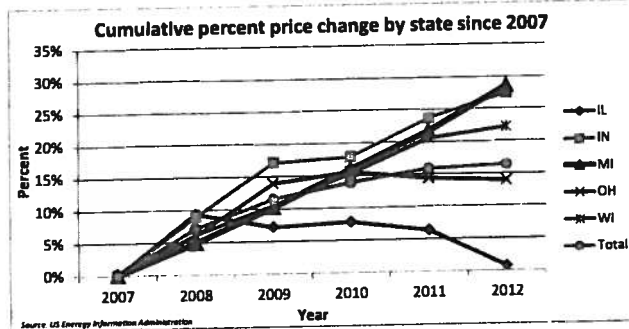
  

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2001-2011 Average
Illinois	0.95	0.96	0.92	0.89	0.85	0.79	0.93	0.95	0.92	0.93	0.90	0.91
Indiana	0.73	0.74	0.72	0.73	0.72	0.73	0.71	0.73	0.76	0.78	0.81	0.74
Michigan	0.96	0.99	0.92	0.91	0.89	0.91	0.93	0.92	0.96	1.01	1.04	0.95
Ohio	0.91	0.94	0.91	0.91	0.87	0.87	0.87	0.86	0.92	0.93	0.91	0.90
Wisconsin	0.83	0.87	0.89	0.90	0.92	0.91	0.93	0.92	0.95	1.00	1.02	0.92

## MICHIGAN'S "DEMAND DESTRUCTION" IN LINE WITH REST OF THE UPPER MIDWEST



## MICHIGAN'S HIGHEST MIDWEST PRICES ARE THE RESULT OF 2008 CHOICE POLICY REVERSAL

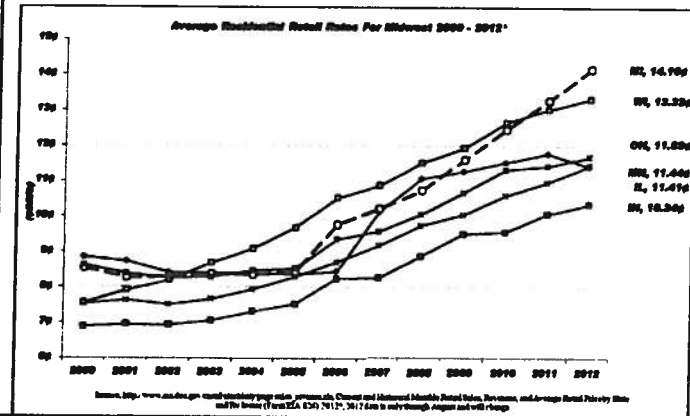


## MICHIGAN CONSUMERS ARE PAYING A HEAVY PRICE FOR MONPOLY

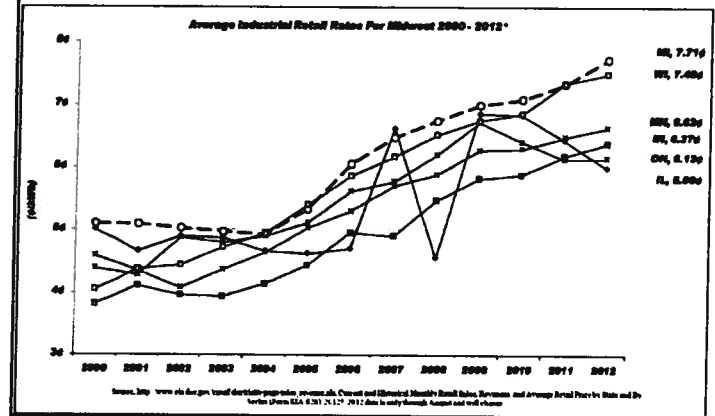
Michigan Rates Rising Fastest in Midwest  
Price trends 2008-2012

- Michigan up 29% : Monopoly/10% Choice
- Indiana up 27%: Monopoly
- Wisconsin up 22%: Monopoly
- Ohio up 14%: Increasing Choice
- Illinois up <1%: Near Total Choice

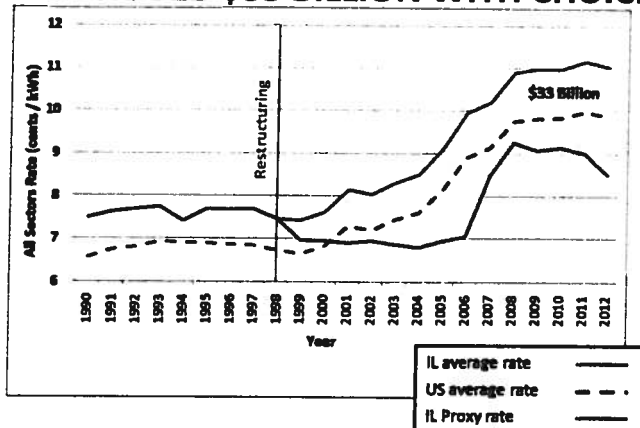
## MPSC COMPARISON OF MIDWEST RESIDENTIAL RATES 2000-2012



## MPSC COMPARISON OF MIDWEST INDUSTRIAL RATES 2000-2012



## ILLINOIS' U.S. PRICE POSITION HAS IMPROVED \$33 BILLION WITH CHOICE



## FIVE FALSE ARGUMENTS AGAINST ELECTRICITY CUSTOMER CHOICE

- Electricity competition and customer choice do not work in practice.
- Reliability will suffer and investors will not build new power plants.
- Competition is unfair since utilities have made investments based on regulated monopoly.
- Remaining customers will pick up higher costs.
- Renewables and energy efficiency programs will be deficient under customer choice.

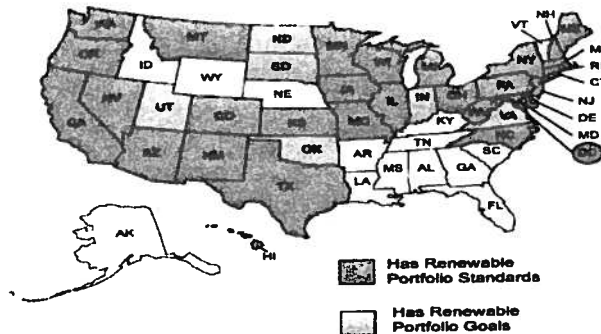
### THE FIVE FALSE ARGUMENTS ARE DISPROVEN BY ACTUAL EXPERIENCE

- Customer choice is operating throughout the developed world.
- No reliability issues can be attributed to choice. Investors have built plants.
- Transition charges (stranded cost fees) and greater freedom compensate utilities.
- Remaining customers pick up extra costs only when that is government policy.
- Renewables and efficiency programs as good or better in choice states.

### NON-UTILITY GENERATION IS A MAJOR FACTOR IN U.S. ELECTRICITY

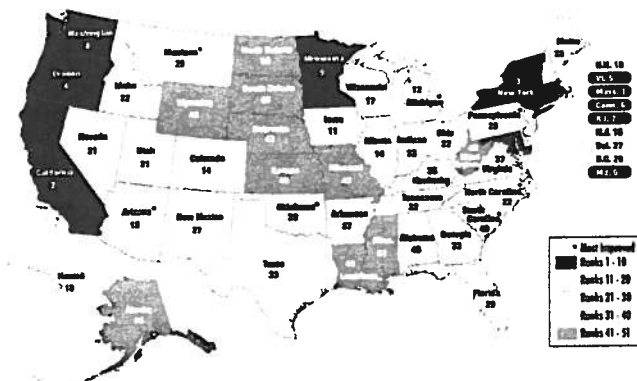
- Non-Utility plants provide 41% of U.S. power
- New England generation is 97% non-utility
- Illinois generation is 94% non-utility
- Michigan generation is 26% non-utility
- Since 1997 Illinois has added 11,600 MW & Michigan 5,800 MW, mostly non-utility.
- PJM, NEISO & NYISO, mostly competitive have higher reserve margins than MISO, which has little retail competition.

### Most States Have Renewable Portfolio Standards or Goals



Source: Interstate Renewable Energy Council, Database of State Incentives for Renewables & Efficiency (accessed January 2013).

### ACEEE ENERGY EFFICIENCY PROGRAMS SCORECARD



## FIVE BENEFITS OF CUSTOMER CHOICE BEYOND AVERAGE PRICE LEVELS

- Market prices deliver accurate price signals rather than distorting prices and giving everyone false supply/demand information.
- Flexibility for customers to have contracts tailored to preferred terms & time periods.
- Customers, suppliers and utilities innovate to better meet market demands.
- Risk is properly allocated.
- Regulatory resources used more efficiently.

## CUSTOMER CHOICE CONTRIBUTES TO INNOVATION

Product options	Pricing features	Additional Services
<ul style="list-style-type: none"> <li>• Power flow term consistent with budget needs</li> <li>• Fixed price for budget certainty</li> <li>• Variable price that ebbs &amp; flows with market conditions</li> <li>• Portfolio of fixed / variably priced layers</li> <li>• Aggregate prices across accounts</li> </ul>	<ul style="list-style-type: none"> <li>• Time of use or round the clock prices</li> <li>• Fix or pass through pricing components, such as energy, capacity, transmission, and ancillaries</li> <li>• Fixed &amp; variable charges or one unit price for all usage</li> </ul>	<ul style="list-style-type: none"> <li>• Energy market updates</li> <li>• Load response</li> <li>• Energy efficiency</li> <li>• Solar installations</li> <li>• Green energy</li> <li>• Software to analyze usage &amp; costs</li> </ul>

## Philip R. O'Connor, Ph.D.

PROactive-Strategies, Inc. — Chicago, Illinois

Dr. Phil O'Connor is President of PROactive Strategies, a Chicago consulting firm providing advice in the energy and insurance industries. For over two decades Phil has been recognized as a leading advocate of competitive market solutions for regulated businesses.

Phil is the author of *Customer Choice in Electricity Markets: From Novel to Normal*, published by COMPETE Coalition in November 2010 and co-author with Terrence L. Barnich of "The Grand Experiment: Has Restructuring Succeeded on Either Continent?", published in *Public Utilities Fortnightly*, February 2007.

In addition to a lengthy career in the private sector, Phil has had extensive government and political experience, having chaired the Illinois Commerce Commission serving as Director of the Illinois Department of Insurance and as a member of the Illinois State Board of Elections. Five consecutive Illinois Governors have appointed him to various boards and commissions.

From March 2007 to March 2008, Phil served in the U.S. Embassy in Baghdad, Iraq with the US Army Corps of Engineers and the US State Department as an advisor to the Iraqi Ministry of Electricity. A *magna cum laude* graduate of Loyola University of Chicago, Phil received his Masters and Doctorate in Political Science from Northwestern University.

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